

Message Text

CONFIDENTIAL

PAGE 01 LONDON 13649 01 OF 02 271733Z

46

ACTION EB-07

INFO OCT-01 EUR-12 IO-13 ISO-00 AF-08 ARA-06 EA-07 NEA-10

INT-05 L-03 FRB-03 OMB-01 ITC-01 SP-02 USIA-06 AGR-05

AID-05 CIAE-00 COME-00 INR-07 LAB-04 NSAE-00 OIC-02

SIL-01 STR-04 TRSE-00 CIEP-01 CEA-01 /115 W

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R 271725Z AUG 76

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 4980

INFO AMEMBASSY PARIS

USMISSION GENEVA

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 13649

DEPARTMENT PASS AS APPROPRIATE

E.O.11652: GDS

TAGS: EMIN, UNCTAD, UK

SUBJECT: UNCTAD MEETINGS ON COMMODITIES: COPPER:
HEWITT/LEGOUX LETTER

REF: STATE 197486

1. WE PASSED TEXT OF HEWITT-TO-LEGOUX LETTER ON COPPER CONSULTATIONS TO MICHAEL JOHNSON, ASSISTANT SECRETARY AND HEAD OF THE NON-FERROUS METALS BRANCH OF THE DEPARTMENT OF INDUSTRY ON HIS RETURN FROM VACATION. AFTER THANKING US, JOHNSON CONFIRMED THAT HE WILL HEAD UK DELEGATION TO UNCTAD PREPARATORY MEETING ON COPPER. HE SAID UK SHARES MOST OF U.S. CONCERNS OUTLINED IN LETTER AND PARTICULARLY AGREES THAT CONSUMERS SHOULD MEET TO ACHIEVE AN AGREED POSITION ON THE MAJOR ISSUES BEFORE GENEVA MEETING. JOHNSON POINTED OUT THAT IN LIGHT OF UNCTAD ACTIVITIES, IT APPEARS MARCH WORK PROGRAM HAS GONE BY THE BOARD.

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PAGE 02 LONDON 13649 01 OF 02 271733Z

2. JOHNSON SAID THAT BEFORE GENERAL CONSUMER MEETING,

EC WILL HAVE TO MEET IN BRUSSELS TO COORDINATE ITS POSITION. THERE IS AT PRESENT SUCH A WIDE DIVERGENCE OF VIEWS AMONG COMMUNITY MEMBERS THAT JOHNSON DESCRIBED COORDINATION AS "A TOTAL SHAMBLES." ACCORDING TO HIM, POSITIONS RANGE FROM THE FRENCH WHO ARE "KEEN" ON SOME FORM OF ARRANGEMENT TO THE FRG WHICH IS TOTALLY OPPOSED, WITH THE UK HEDGING IN THE MIDDLE. HE SAID UK WILL NOT WANT TO GET OUT IN FRONT ON COOPER AFTER "HAVING BEEN LEFT OUT ON A LIMB IN NAIROBI." IN KEEPING WITH UK DESIRE TO MAINTAIN LOW PROFILE, THEY HAVE NOT APPROACHED COREA ABOUT COPPER. THEY HAVE, HOWEVER, RECENTLY MADE POINT HERE IN LONDON TO MEMBER OF TOM DAWSON'S UNCTAD COMMODITY STAFF THAT UK FEELS MEANINGFUL PROGRESS CANNOT BE MADE ON COPPER IN THE FRAMEWORK OUTLINED BY COREA.

3. JOHNSON ALSO SAID THAT PETER PRESTON, WHO WILL CHAIR MEETING OF OECD HIGH-LEVEL GROUP ON COMMODITIES SEPTEMBER 21-22 IN PARIS, HAS SUGGESTED PUTTING THE COPPER CONSULTATIONS ON HLG AGENDA. JOHNSON FAVORS THIS STEP AS MEETING WITH INCLUDE CANADA AND AUSTRALIA, PRODUCERS

HEWITT LETTER. PRESTON DESCRIBED HLG DISCUSSION OF THIS SUBJECT TO JOHNSON AS MORE OR LESS OF A TRIAL RUN FOR LATER, MORE SUBSTANTIVE CONSUMER DISCUSSIONS. AT THIS MOMENT JOHNSON FEELS IT WILL ALMOST CERTAINLY BE AGENDA, BUT SUGGESTED THAT WE LET PRESTON KNOW IF WE AGREE WITH HIS IDEA.

4. JOHNSON THEN WENT ON TO DESCRIBE ON CONFIDENTIAL AND PERSONAL BASIS INTERNAL EXERCISE WITHIN HIS DEPARTMENT DESIGNED TO ASCERTAIN WHERE REAL UK INTERESTS IN COPPER MARKET LIE. PURELY INTERNAL REPORT HAS BEEN PREPARED WHICH WILL GO FORWARD IN SEPTEMBER FOR MINISTERIAL CON-

CONFIDENTIAL

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PAGE 01 LONDON 13649 02 OF 02 271732Z

46

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C O N F I D E N T I A L SECTION 02 OF 02 LONDON 13649

SIDERATION. ONE OF THE INTERESTING CONCLUSIONS OF THE STUDY, WHICH ARE OF PARTICULAR SIGNIFICANCE TO UK AS THE THIRD OR FOURTH LARGEST CONSUMER, IS THAT COPPER PRICES HAVE SURPRISINGLY LITTLE IMPACT ON FINAL PRICES OF MANUFACTURED GOODS. THE STUDY CONCLUDED THAT EVIDENCE DOES NOT SUPPORT ARGUMENT THAT STABLE PRICES WOULD HAVE IMPROVED COST POSITION. JOHNSON SAID THIS POINT WILL COLOR HIS DEPARTMENT'S PRESENTATION TO HM TREASURY ON QUESTION OF NEED FOR COPPER BUFFER STOCK. ACCORDING TO THE STUDY, THE PROJECTED SIZE OF A COPPER BUFFER STOCK WOULD HAVE TO BE IN EXCESS OF ONE AND A HALF MILLION TONS TO EFFECTIVELY STABILIZE PRICES. WITH EARLY 1976 PRICES FLUCTUATING AT BETWEEN 700 AND 1,000 POUNDS PER TON, THE FINANCIAL COST OF THE BUFFER STOCK WOULD BE PROHIBITIVE. THUS, BASED ON ECONOMIC DATA NOW AVAILABLE, THE STUDY HAS CONCLUDED THAT THERE IS NO CASE FOR PURSUING A COPPER BUFFER STOCK AS AN AIM OF UK POLICY.

5. THERE ARE, HOWEVER, TWO POTENTIAL PROBLEM AREAS POINTED OUT IN THE STUDY. ELEMENTS OF UK INDUSTRY HAVE

CONFIDENTIAL

PAGE 02 LONDON 13649 02 OF 02 271732Z

REAL PROBLEMS IN FINANCING THEIR IMPORTS WHEN PRICES FLUCTUATE, SO THEY ARE ACTIVELY LOBBYING FOR HMG SUPPORT OF STABILIZATION MECHANISMS. THIS LOBBY DOVETAILS WITH THE INTERNATIONAL POLITICAL AND ECONOMIC PRESSURES ON THE GOVERNMENT. SECOND, THE STUDY SHOWS THAT LOW INVESTMENT FIGURES IN THE LAST FEW YEARS MAY MEAN THAT PRODUCTION WILL NOT BE GROWING RAPIDLY ENOUGH DURING THE MID-80S.

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